STATE OF MICHIGAN

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS

MARKET CONDUCT EXAMINATION

NUMBER 2012C-0029

October 29, 2012

TARGETED MARKET CONDUCT EXAMINATION REPORT

OF

STATE FARM MUTUAL AUTO INSURANCE COMPANY

LANSING, MICHIGAN

NAIC COMPANY CODE 25178

For the Period January 1, 2009 through December 31, 2011

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I. EXECUTIVE SUMMARY

State Farm Mutual Auto Insurance Company's (the Company) statutory home office is located at One State Farm Plaza, Bloomington, IL 61710. AM Best has given a rating of A++ to the Company. This examination was conducted in conformance with the National Association of Insurance Commissioners (NAIC) *Market Regulation Handbook* (2012) (*Handbook)* and the Michigan Insurance Code, MCL 500.100 et seq. The scope of this market conduct examination has been limited to the Company's activities related to the handling of private passenger automobile-personal injury protection claims and complaint handling for the time period of January 1, 2009 through December 31, 2011.

The Company Examination Coordinator, Thomas B. Manning, informed the Office of Financial and Insurance Regulation (OFIR) that the records for Michigan private passenger automobile-personal injury protection payments claims handling are housed in the Company's Portage Michigan facility located at 5564 Portage Road, Portage, Michigan. The on-site Claims Manager is LaSonya Allen, (269) 553-2788, lasonya.allen.c37d@statefarm.com. Complaints and the refund issue information were obtained through the enterprise information security policy standards accessed via in-house computers made available for our use.

Effective July 18, 2012, OFIR management requested the scope of the exam be expanded to include verification of the policyholders who are receiving refund checks due to a system issue which allowed excluded driver information to be used when rating policies. We will only be examining the files within the examination period.

This summary of this targeted market conduct examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, findings, Company responses, and OFIR recommendations.

OFIR considers a substantive issue one in which a "finding" or violation of Michigan Insurance Code was found to have occurred, or one in which corrective action on the part of the Company is deemed advisable.

Significant Findings:
No significant findings were found in the private passenger automobile-personal injury protection payments claims handling or complaint handling. No significant findings were found regarding the system rating policy issue.

II. PURPOSE, SCOPE AND METHODOLOGY

This report is based on a targeted market conduct examination of State Farm Mutual Auto Insurance Company (the Company). The examination was conducted at the Company's Portage Michigan facility located at 5564 Portage Road, Portage, Michigan. OFIR conducted this examination in accordance with statutory authority of the Michigan Insurance Code, MCL 500.222 et seq. All Michigan laws, regulations and bulletins cited in this report may be viewed on OFIR's website at www.michigan.gov/ofir.

This examination was conducted under the supervision of Regan Johnson, Director of the Market Conduct Section, and Sherry J Bass-Pohl, Manager of the Market Conduct Unit. The on-site examination team consisted of Lynell A. Cauther, Examiner-in-Charge, Sherry Barrett and Zachary Dillinger, Market Conduct Examiners.

The examination team reviewed the Company's market conduct procedures and treatment of policyholders in the State of Michigan. This examination focused on private passenger automobile-personal injury protection payments claims handling, complaint handling and a specific system rating policy issue. The examination covered the period of January 1, 2009 through December 31, 2011. The analysis and examination of these areas were conducted and measured in accordance with the standards and practices in the NAIC *Handbook*, the applicable statutes in the Michigan Insurance Code, and the Company's internal guidelines and procedures.

Three types of review were utilized for the above standards. Certain standards were examined with a single review, and others were examined using one or more type of review. The NAIC *Handbook* calls for a random sample of 100 files when the examination population is greater than 5000. This statistical sample applies to the Company as follows:

1. Generic Review: A standard test was applied using analysis of general information provided as a response to examiner questions.
2. Sample Review: Sample test review was applied by means of direct review of random sample files. This methodology is described in the NAIC *Handbook*. Statistical sampling is based on a 10% error tolerance and a 95% confidence level.
3. Electronic review: This standard was employed using a computer program applied to a sample of company records.

This examination report is a report by test. The report contains a summary of pertinent information about the lines of business examined. This includes each standard, Michigan Insurance Code citation, and NAIC *Handbook* source; any examination findings detailing the non-compliant or problematic activities that were discovered during the course of the exam; the Company response proposing methods for correcting the deficiencies; and recommendation for any further action by OFIR.

III. COMPANY OPERATIONS AND PROFILE

State Farm Mutual Auto Insurance Company's statutory home office is located at One State Farm Plaza, Bloomington, IL 61710. State Farm is a mutual company with 68,000 employees and more than 18,000 agents who service 81 million policies and accounts throughout the U.S. and Canada. A.M. Best Co., which provides an independent opinion of an insurer's ability to meet its obligations to policyholders, continues to give its highest rating (A++) to State Farm Mutual.

The Company's primary insurance lines of business are private passenger automobile, homeowners, and individual life insurance written through an independent agency force.

IV. EXAMINATION FINDINGS AND RECOMMENDATIONS

A. CLAIMS HANDLING PRACTICES

Claims handling practices work programs were executed on the following samples:

Private Passenger Auto-Personal Injury Protection Closed With Payment

Population	Sample Size	Maximum Failures	Failures
32,704	88	2	0

Private Passenger Auto-Personal Injury Protection Closed Without Payment

Population	Sample Size	Maximum Failures	Failures
21,707	88	2	0

***Standard 2*:** Timely investigations are conducted. NAIC *Handbook* Chapter 16

MCL 500.2026(c):

> (1) Unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, other than isolated incidents, are a course of conduct indicating a persistent tendency to engage in that type of conduct and include:
>
> > (a) Misrepresenting pertinent facts or insurance policy provisions relating to coverages at issue.
> > (b) Failing to acknowledge promptly or to act reasonably and promptly upon communications with respect to claims arising under insurance policies.
> > (c) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

> (d) Refusing to pay claims without conducting a reasonable investigation based upon the available information.
> (e) Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed.
>
> * * *
>
> (h) Attempting to settle a claim for less than the amount to which a reasonable person would believe the claimant was entitled, by reference to written or printed advertising material accompanying or made part of an application.
>
> * * *
>
> (m) Failing to promptly settle claims where liability has become reasonably clear under 1 portion of the insurance policy coverage in order to influence settlements under other portions of the insurance policy.
> (n) Failing to promptly provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for denial of a claim or for the offer of a compromise settlement.

Findings:
In all sampled files that warranted a Company investigation, said investigation was completed within one year. There are no findings.

Recommendation:
No further action is required at this time. The Company is in compliance with all statutes, rules, regulations and internal guidelines relevant to this standard.

Company Response:
"State Farm has reviewed the report and does not have any comments or concerns."

***Standard 3*:** Claims are resolved in a timely manner. NAIC *Handbook* Chapter 16

MCL 500.2006:

> (1) A person must pay on a timely basis to its insured, an individual or entity directly entitled to benefits under its insured's contract of insurance, or a third party tort claimant the benefits provided under the terms of its policy, or, in the alternative, the person must pay to its insured, an individual or entity directly entitled to benefits under its insured's contract of insurance, or a third party tort claimant 12% interest, as provided in subsection (4), on claims not paid on a timely basis. Failure to pay claims on a timely basis or to pay interest on claims as provided in subsection (4) is an unfair trade practice unless the claim is reasonably in dispute.
>
> * * *
>
> (3) An insurer shall specify in writing the materials that constitute a satisfactory proof of loss not later than 30 days after receipt of a claim unless the claim is settled within the 30 days. If proof of loss is not supplied as to the entire claim,

the amount supported by proof of loss shall be considered paid on a timely basis if paid within 60 days after receipt of proof of loss by the insurer. Any part of the remainder of the claim that is later supported by proof of loss shall be considered paid on a timely basis if paid within 60 days after receipt of the proof of loss by the insurer. If the proof of loss provided by the claimant contains facts that clearly indicate the need for additional medical information by the insurer in order to determine its liability under a policy of life insurance, the claim shall be considered paid on a timely basis if paid within 60 days after receipt of necessary medical information by the insurer. Payment of a claim shall not be untimely during any period in which the insurer is unable to pay the claim when there is no recipient who is legally able to give a valid release for the payment, or where the insurer is unable to determine who is entitled to receive the payment, if the insurer has promptly notified the claimant of that inability and has offered in good faith to promptly pay the claim upon determination of who is entitled to receive the payment.

(4) If benefits are not paid on a timely basis the benefits paid shall bear simple interest from a date 60 days after satisfactory proof of loss was received by the insurer at the rate of 12% per annum, if the claimant is the insured or an individual or entity directly entitled to benefits under the insured's contract of insurance. If the claimant is a third party tort claimant, then the benefits paid shall bear interest from a date 60 days after satisfactory proof of loss was received by the insurer at the rate of 12% per annum if the liability of the insurer for the claim is not reasonably in dispute, the insurer has refused payment in bad faith and the bad faith was determined by a court of law. The interest shall be paid in addition to and at the time of payment of the loss. If the loss exceeds the limits of insurance coverage available, interest shall be payable based upon the limits of insurance coverage rather than the amount of the loss. If payment is offered by the insurer but is rejected by the claimant, and the claimant does not subsequently recover an amount in excess of the amount offered, interest is not due. Interest paid pursuant to this section shall be offset by any award of interest that is payable by the insurer pursuant to the award.

Findings:
MCL 500.2006, and internal guidelines, require that claims with adequate proof of loss be paid within 60 days of receipt of the proof of loss, unless the claim is reasonably in dispute.

- Of the 88 sampled private passenger automobile personal injury protection files closed with payment, claim documentation was received by the health care provider. Within each claim there were as few as one request for payment and as many as 190. Sixty-one of the 88 sampled claims were paid within 30 days without dispute. Within the remaining 27 claims, 42 requests for payments were paid late with interest, 17 were paid late without interest (10 - insured failed to submit documentation and 7 – due to coding error on behalf of billing party).

- Of the 88 sampled private passenger automobile personal injury protection files closed without payment, 70 were not paid because the injured party either didn't submit any medical bills to be paid or no medical treatment was sought. The remaining files were closed for one of the following reasons: non-covered vehicle, bills below deductible, company not primary for injury, coordination of benefits with health insurance, one non-covered injury (birth triggered shortly after accident) and one fraud case (no accident/no injury).

Recommendation:
No further action is required at this time. The Company is in compliance with all statutes, rules regulations and internal guidelines relevant to this standard.

Company Response:
"State Farm has reviewed the report and does not have any comments or concerns."

***Standard 4*:** The regulated entity responds to claims in a timely manner. NAIC *Handbook* Chapter 16

Findings:
Company policy requires initial contact with claimant same day when possible. In all sampled files, with no exceptions, the Company met this requirement. There are no findings.

Recommendation:
No further action is required at this time. The Company is in compliance with all statutes, rules regulations and internal guidelines relevant to this standard.

Company Response:
"State Farm has reviewed the report and does not have any comments or concerns."

***Standard 5*:** Claim files are adequately documented. NAIC *Handbook* Chapter 16

Findings:
The documentation in each sampled file was more than adequate to support the determination. The electronic system used to store the claim information was complete with many checks and balances for information verification. All Company requirements were met. There are no findings.

Recommendation:
No further action is required at this time. The Company is in compliance with all statutes, rules regulations and internal guidelines relevant to this standard.

Company Response:
"State Farm has reviewed the report and does not have any comments or concerns."

***Standard 6*:** Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations. NAIC *Handbook* Chapter 16

MCL 500.2026(1)(a), (b), (e), and (h) (see above)

Findings:
All claims handling practices of the Company to determine efficiency of handling, accuracy of payment, adherence to contract provisions, and compliance with applicable Michigan statutes and OFIR were examined.

Recommendation:
No further action is required at this time. The Company is in compliance with all statutes, rules regulations and internal guidelines relevant to this standard.

Company Response:
"State Farm has reviewed the report and does not have any comments or concerns."

B. COMPLAINT HANDLING PRACTICES

***Standard 1*:** All complaints are recorded in the required format on the regulated entity's complaint register. NAIC *Handbook* Chapter 16

MCL 500.2026(2):

> (2) The failure of a person to maintain a complete record of all the complaints of its insureds which it has received since the date of the last examination is an unfair method of competition and unfair or deceptive act or practice in the business of insurance. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition thereof, and the time it took to process each complaint. For purposes of this subsection, "complaint" means a written communication primarily expressing an allegation of acts which would constitute violation of this chapter. If a complaint relating to an insurer is received by an agent of the insurer, the agent shall promptly forward the complaint to the insurer unless the agent resolves the complaint to the satisfaction of the insured within a reasonable time. An insurer shall not be deemed to have engaged in an unfair method of competition or an unfair or deceptive act or practice in the business of insurance in violation of this chapter because of the failure of an agent who is not also an employee to forward a written complaint as required by this subsection.

Findings:
The examiners requested and reviewed the Company's complaint register. For the period under review, there were a total of 81complaints. All complaints were recorded as required.

Recommendation:
No further action is required at this time. The Company is in compliance with all statutes, rules regulations and internal guidelines relevant to this standard.

Company Response:
"State Farm has reviewed the report and does not have any comments or concerns."

***Standard 2*:** The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders. NAIC *Handbook,* Chapter 16.

Findings:
Company has adequate complaint handling procedures in place. Complaints are forwarded to appropriate manager to address and computerized systems are used to assure complete and proper processes are followed.

Recommendation:
No further action is required at this time. The Company is in compliance with all statutes, rules regulations and internal guidelines relevant to this standard.

Company Response:
"State Farm has reviewed the report and does not have any comments or concerns."

***Standard 3*:** The Company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language. NAIC *Handbook,* Chapter 16

Findings:
Examiners found no instance in which the Company failed to properly address the complainant's concern. The most common issue was insured seeking additional benefits, e.g. treatment not related to motor vehicle accident, wage loss not related to motor vehicle accident and payment of medical bills after settlement. In one instance, the Company arranged for a car to take a complainant to an independent medical examiner (IME) when complainant stated they could not drive that far.

The Company appears to go beyond what would be required to finalize and dispose of a complaint.

Recommendation:
No further action is required at this time. The Company is in compliance with all statutes, rules regulations and internal guidelines relevant to this standard.

Company Response:
"State Farm has reviewed the report and does not have any comments or concerns."

C. MICHIGAN EXCLUDED DRIVER REFUND

In a conversation with OFIR Market Conduct managers, Tom Manning, Counsel for State Farm and coordinator for this examination, stated that State Farm had found a system error which allowed excluded driver information to be use when rating policies which resulted in State Farm

issuing refund checks to 1,202 Michigan policyholders. Nine hundred and eighty-three policyholders were affected within the examination period; 11 checks were shredded after all attempts to contact policyholder were exhausted.

That information was examined and it was found that letters were sent to each policyholder affected by this system error according to the information below:

> If the refund is $10 or more, policyholders will receive a check.
>
> If the refund is less than $10, the policyholder will receive a premium credit that will be applied at the next rating transaction (e.g. renewal offer).
>
> If the policy is on State Farm Payment Plan (SFPP), the SFPP account will receive a credit for only the refund due in the current term. For refunds in prior terms, these SFPP policyholders will receive a check.

Findings:
State Farm found this error and corrected it without hesitation.

Recommendation:
No further action is required at this time. The Company is in compliance with all statutes, rules regulations and internal guidelines relevant to this issue.

Company Response:
"State Farm has reviewed the report and does not have any comments or concerns."

V. ACKNOWLEDGEMENT

This examination report of State Farm Mutual Auto Insurance Company is respectfully submitted to the Commissioner of the Office of Financial and Insurance Regulation, State of Michigan.

The courteous cooperation and assistance of the officers and employees of the Company extended to the examiners during the course of the examination is hereby acknowledged.

In addition to the undersigned, Zachary Dillinger, Market Conduct Examiner and Sherry Barrett, Market Conduct Examiner, participated on the examination.

Lynell A. Cauther, MCM
Examiner-in-Charge
Office of Financial and Insurance Regulation
Market Conduct Section
October 29, 2012